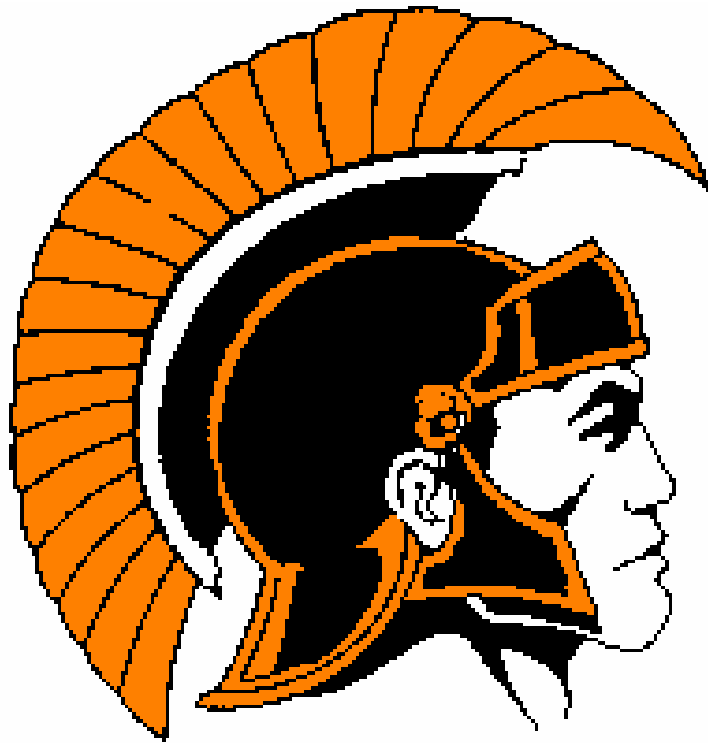


THORNAPPLE KELLOGG SCHOOLS

Barry, Allegan, Kent and Ionia Counties,
Michigan



Report on Financial Statements
For the year ended June 30, 2006

THORNAPPLE KELLOGG SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

August 31, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Thornapple Kellogg Schools

August 31, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006, on our consideration of Thornapple Kellogg Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Thornapple Kellogg Schools' basic financial statements. The additional information on pages 30 to 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costinison & Ellis, P.C.

Certified Public Accountants

Thornapple Kellogg Schools

Management's Discussion and Analysis

June 30, 2006



As management of the Thornapple Kellogg Schools (“the District”), a K-12 school district located in Barry, Allegan, Kent and Ionia Counties, Michigan, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Additional Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status. These statements present an aggregate view of the District’s finances and a longer-term view of those finances.
- The remaining statements are fund financial statements that focus on individual parts of the District. These statements look at the District’s operations in more detail than the district-wide statements by providing information about the District’s most significant funds – the General Fund and 2002 Capital Projects Fund, with all other funds presented in one column as Nonmajor Funds.

The fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Additional Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities and use the accrual basis of accounting. All of the current year’s revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

The relationship between revenues and expenses is the District’s operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District’s goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are “measurable” and “currently available”. Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds – consisting of the 2002 and 2004 Debt Funds.
- Special Revenue Funds – consisting of the Food Service, Athletic, and the Public Library Funds.
- Capital Projects Funds – consisting of the 2002 Capital Projects Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



Financial Analysis of the District as a Whole

The following summary of net assets provides the perspective of the District as a whole as of June 30, 2006 and 2005, respectively.

	2006	2005	Percentage change
Assets			
Current assets	\$ 10,928,595	\$ 11,314,455	-3.41%
Deferred charges, net	638,423	678,324	-5.88%
Capital assets	59,704,507	60,077,665	-0.62%
Less accumulated depreciation	(11,085,741)	(10,677,517)	3.82%
Capital assets, net book value	48,618,766	49,400,148	-1.58%
Total assets	60,185,784	61,392,927	-1.97%
Liabilities			
Current liabilities	6,288,179	7,153,637	-12.10%
Non-current liabilities	46,908,671	48,348,583	-2.98%
Total liabilities	53,196,850	55,502,220	-4.15%
Net Assets			
Invested in capital assets, net of related debt	2,796,321	3,218,178	-13.11%
Restricted	143,721	324,367	-55.69%
Unrestricted	4,048,893	2,348,162	72.43%
Total net assets	\$ 6,988,935	\$ 5,890,707	18.64%

Capital assets net of related debt, \$2.8 million, is the original cost of the District's capital assets, less depreciation plus remaining fund balance in 2002 Capital Projects Fund, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of \$.1 million are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of \$4.0 million was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006



The Statement of Activities presents changes in net assets from operating results:

	2006	2005	Percentage change
Program Revenues			
Charges for services	\$ 999,583	\$ 968,426	3.22%
Operating grants	1,259,484	1,216,562	3.53%
General Revenues			
Property taxes	5,324,163	4,957,462	7.40%
State school aid, unrestricted	18,688,821	18,385,599	1.65%
Interest earnings	122,055	71,728	70.16%
Intermediate	1,225,157	1,141,242	7.35%
Other	143,676	143,886	-0.15%
Total revenues	27,762,939	26,884,905	3.27%
Expenses			
Instruction	13,578,337	13,543,922	0.25%
Supporting services	8,909,163	7,705,222	15.63%
Community services	228,044	358,813	-36.44%
Food service	983,034	890,247	10.42%
Athletics	747,337	740,363	0.94%
Public library	45,847	50,400	-9.03%
Intermediate		1,367,352	-100.00%
Interest on long-term debt	2,172,949	2,134,422	1.81%
Total expenses	26,664,711	26,790,741	-0.47%
Increase (decrease) in net assets	1,098,228	94,164	1066.29%
Net assets, beginning of year	5,890,707	5,796,543	1.62%
Net assets, end of year	\$ 6,988,935	\$ 5,890,707	18.64%

Local property taxes and unrestricted state aid supported the majority of the governmental activities. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District appreciates the support of the community in maintaining our facilities, as \$3.3 million of the \$5.3 million in tax revenue is generated by a debt millage specifically designated for capital expenditures.

Of the District's total revenues available to operate the District, a little over 3.6 percent or \$1.0 million came from fees charged to those who benefited from the programs. Approximately 4.5 percent or \$1.2 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



The expenses represent the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in Instruction, which accounted for \$13.6 million or 50.9 percent of total expenses. Direct Support Services cost \$8.9 million or 33.4 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$1,098,228 or approximately 18.6 percent. The increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Thornapple Kellogg School's funds are described as follows:

The General Fund is the principal operating fund. The General Fund had total revenues of \$23,228,940, total expenditures of \$21,632,714, and total other financing sources of \$336,930 and uses of \$450,000. It ended the fiscal year with a fund balance of \$4,611,139, up from \$3,127,983 as of June 30, 2005. The District reduced expenditures for 2005/06 without reducing any educational programs. The increase in fund balance was anticipated as part of the District's long range budget plan. The fund balance is appropriately reserved and designated.

2002 Capital Projects Fund

The District's \$24 million improvement project is funded by the bonds issued in November, 2002 and accounted for the 2002 Capital Projects Fund. Current year investment earnings totaled \$54,638 and ongoing construction/equipment expenditures totaled \$968,724 leaving a remaining fund balance at June 30, 2006 of \$1,812,350 with which to complete the projects.

Nonmajor Funds

Special Revenue Funds

The District operates three Special Revenue Funds, for food service, athletics and the public library. Total revenues were \$1,168,924 and other financing sources were \$450,000, with total expenditures of \$1,628,243. The ending fund balances of each fund were Food Service of \$6,537, Athletics of \$20,301, and Public Library of \$7,340.

Debt Service Funds

The District operates two Debt Service Funds for the 2002 bond issue and the 2004 refunding bond issue. Total revenues were \$3,160,525 and other financing sources of \$264,155, with total expenditures of \$3,638,307. The ending fund balances in the Debt Service Funds totaled \$456,003.

Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006



Fiduciary Funds

The Student Activities Fund and the Private Purpose Trust Fund are operated as fiduciary funds of the District. The assets of these funds are being held for the benefit of the District's employees and students. Balances on hand at June 30, 2006 totaled \$280,606

General Fund Budgetary Highlights

	Original budget	Final budget	Actual	Variance with final budget positive (negative)	% variance
Total revenues and other	\$ 23,229,329	\$ 23,418,457	\$ 23,565,870	\$ 147,413	0.63%
Expenditures					
Instruction	13,158,633	12,996,823	12,764,982	231,841	1.78%
Supporting services	7,888,073	8,788,371	8,653,006	135,365	1.54%
Community services	313,042	233,193	214,726	18,467	7.92%
Intermediate	1,524,865	-	-	-	0.00%
Transfer	450,000	450,000	450,000	-	0.00%
	<u>\$ 23,334,613</u>	<u>\$ 22,468,387</u>	<u>\$ 22,082,714</u>	<u>\$ 385,673</u>	<u>1.72%</u>

Over the course of the year, the District revised the annual operating budget in March and June. The District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations.

Major changes to the General Fund original budget were:

- Intermediate expenses for itinerant staff, special education transportation, and tuition were reclassified to supporting services to comply with State reporting requirements.
- The District's final, actual general fund expenditures differed by \$385,673 from the final budget, a variance of 1.72 percent. The reduction of actual expenditures over budget was accomplished without cutting instructional programs.

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



Analysis of Financial Position

The District remains in stable condition as of June 30, 2006. Management continues to make conservative reductions of operating expenses in every possible area and increase revenues in appropriate areas as a contribution to costs incurred. Management also intends to utilize the remaining fund balance, as needed, to continue to fund quality educational programs and curriculum to comply with new State requirements during inevitable economic downturns in the future.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had invested \$59.7 million in a broad range of capital assets, including land, school buildings, vehicles, athletic facilities, computer equipment and software. This amount represents a net decrease of \$.8 million or (1.6%) from last year. (More detailed information about capital assets can be found in Note 4 in the Notes to Financial Statements.) Total depreciation expense for the year was \$1,503,065.

The District's fiscal year 2006 capital budget projects spending another \$.9 million for capital projects. The remaining fund balance of \$1.8 million is designated for two major areas:

- \$1.3 million for the purchase of buses and to continue to update technology and equipment and furnishings in all instructional areas.
- \$.5 million for purchase of additional land.

At June 30, 2006, the District's investment in capital assets (net of accumulated depreciation), was \$48.6 million. This represents a decrease of approximately \$.8 million over the previous year-end. Net book value of capital assets is detailed as follows:

	2006	2005
Land	\$ 745,000	\$ 760,000
Land improvement	1,435,671	1,525,186
Building and additions	44,965,975	35,977,021
Furniture and equipment	1,158,216	1,508,814
Vehicles	313,904	312,674
Construction in progress		9,316,453
Net capital assets	<u>\$ 48,618,766</u>	<u>\$ 49,400,148</u>

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



Long-Term Debt

At year end, the District had \$48.9 million in general obligation bonds and other long-term debt outstanding – a net decrease of approximately \$1.5 million from last year.

- The District continued to pay down its debt, retiring \$1.3 million of outstanding bonds and capital leases.
- \$42,933 was added to employee incentive programs during the year, and \$251,533 of this liability was used/paid during the year.

The District's bond rating for General Obligation, Unlimited Tax debt remains "Aa3". The District's rating for General Obligation, Limited Tax debt remains "A1". The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within a district's boundaries. The District's other obligations include severance pay and accumulated sick leave. We present more detailed information about our long-term liabilities in the Notes to Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

We considered many factors when setting the District's 2006-07 fiscal year budget. One of the most important factors affecting our budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006-07 budget is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006-07 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 70% percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, the District funding is heavily dependent on the State's ability to fund local school operations.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. In fiscal year 2002-03, the State set the foundation allowance at \$6,700 per pupil. Later that same year, the State issued Executive Order cuts that resulted in a reduction of approximately \$183,000 in revenue for the District. In fiscal year 2003-04, the State again set the foundation allowance at \$6,700 per pupil. State ordered cuts later that same year resulted in a reduction of approximately \$213,000 in revenue for the District. The foundation allowance was held at \$6,700 for 2004-05, the third year in a row with no increase. Fiscal 2005/06 was the first year for an increase and the foundation allowance was at \$6,875 per pupil. Early indications from the State for funding levels for fiscal year 2006-07 indicate the foundation allowance will be set at \$7,085 per pupil and though it is a \$210 increase, the State's economy is tentative. The increase scarcely covers the increase in the retirement rate and the rising costs of health care for District employees.

**Thornapple Kellogg Schools
Management's Discussion and Analysis
June 30, 2006**



Other factors bearing on the District:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it. The No Child Left Behind federal mandate has an impact on overall staffing and expenditures for professional development. New standards are also being developed at the State level to reform high school graduation requirements. Future mandates are on the horizon for all school districts for new high school reform.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, while the State has managed to maintain the growth in the rate districts fund the retirement system over the past few years, the increase in the number of retirees projected to occur over the next few years may result in higher annual increases.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Thornapple Kellogg Schools, 10051 Green Lake Road, Middleville, MI 49333.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash (note 3)	\$ 4,044,252
Investments (note 3)	1,322,512
Tax receivables	101,354
Due from other governmental units	3,623,260
Other receivables	7,231
Prepaid expenses	6,000
Inventories	11,636
Restricted cash and investments - capital projects (note 3)	1,812,350
TOTAL CURRENT ASSETS	10,928,595
NONCURRENT ASSETS:	
Deferred charges, net of amortization	638,423
Capital assets (note 4)	59,704,507
Less accumulated depreciation (note 4)	(11,085,741)
TOTAL NONCURRENT ASSETS	49,257,189
TOTAL ASSETS	\$ 60,185,784
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 306,915
Note payable (note 5)	1,500,000
Due to other governmental units	540,144
Accrued interest	355,212
Accrued payroll and withholdings	1,510,865
Deferred revenue	63,394
Current portion of long-term obligations (note 6)	2,011,649
TOTAL CURRENT LIABILITIES	6,288,179
NONCURRENT LIABILITIES:	
Bonds payable, less current portion (note 6)	38,962,652
Compensated absences and early retirement, less current portion (note 6)	440,589
State school bond loan payable (note 6)	7,233,014
State school loan revolving payable (note 6)	272,416
TOTAL NONCURRENT LIABILITIES	46,908,671
TOTAL LIABILITIES	53,196,850
NET ASSETS:	
Invested in capital assets, net of related debt	2,796,321
Restricted for debt service	143,721
Unrestricted	4,048,893
TOTAL NET ASSETS	6,988,935
TOTAL LIABILITIES AND NET ASSETS	\$ 60,185,784

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense)
				revenue and changes in net assets
Governmental activities:				
Instruction	\$ 13,578,337	\$ -	\$ 859,949	\$ (12,718,388)
Support services	8,909,163	-	8,909	(8,900,254)
Community services	228,044	183,454	-	(44,590)
Food services	983,034	604,291	349,964	(28,779)
Athletics	747,337	174,338	-	(572,999)
Public library	45,847	37,500	-	(8,347)
Interest on long-term debt	2,172,949	-	40,662	(2,132,287)
Total governmental activities	<u>\$ 26,664,711</u>	<u>\$ 999,583</u>	<u>\$ 1,259,484</u>	(24,405,644)
General revenues:				
Property taxes, levied for general purposes				2,032,020
Property taxes, levied for debt service				3,292,143
Investment earnings				122,055
State sources, unrestricted				18,688,821
Intermediate sources				1,225,157
Other				(193,254)
Total general revenues				<u>25,166,942</u>
CHANGE IN NET ASSETS				761,298
NET ASSETS, beginning of year				<u>5,890,707</u>
NET ASSETS, end of year				<u>\$ 6,652,005</u>

THORNAPPLE KELLOGG SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash (note 3)	\$ 3,552,173	\$ -	\$ 492,079	\$ 4,044,252
Investments (note 3)	1,322,512	-	-	1,322,512
Taxes receivable	93,544	-	7,810	101,354
Due from other governmental units	3,609,250	-	14,010	3,623,260
Other receivables	6,228	-	1,003	7,231
Prepaid expenses	6,000	-	-	6,000
Inventories	-	-	11,636	11,636
Restricted cash	-	513,286	-	513,286
Restricted investments	-	1,299,064	-	1,299,064
TOTAL ASSETS	<u><u>\$ 8,589,707</u></u>	<u><u>\$ 1,812,350</u></u>	<u><u>\$ 526,538</u></u>	<u><u>\$ 10,928,595</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 292,033	\$ -	\$ 14,882	\$ 306,915
Note payable (note 5)	1,500,000	-	-	1,500,000
Due to other governmental units	539,216	-	928	540,144
Accrued interest	42,930	-	-	42,930
Accrued payroll and withholdings	1,510,865	-	-	1,510,865
Deferred revenue	93,524	-	20,547	114,071
TOTAL LIABILITIES	<u>3,978,568</u>	<u>-</u>	<u>36,357</u>	<u>4,014,925</u>

	<u>General fund</u>	<u>2002 Capital projects</u>	<u>Other nonmajor governmental funds</u>	<u>Total governmental funds</u>
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	\$ 165,512	\$ -	\$ -	\$ 165,512
Reserved for capital outlay	-	1,812,350	-	1,812,350
Reserved for debt service	-	-	456,003	456,003
Reserved for inventory	-	-	6,537	6,537
Unreserved:				
Designated for retirement rate increase	180,145	-	-	180,145
Designated for retirement and sick leave payable	677,741	-	-	677,741
Designated for land purchase	345,000	-	-	345,000
Designated for capital outlay	500,000	-	-	500,000
Designated for subsequent year expenditures	534,131	-	14,517	548,648
Undesignated	2,208,610	-	13,124	2,221,734
TOTAL FUND BALANCES	<u>4,611,139</u>	<u>1,812,350</u>	<u>490,181</u>	<u>6,913,670</u>
TOTAL LIABILITIES AND AND FUND BALANCES	<u><u>\$ 8,589,707</u></u>	<u><u>\$ 1,812,350</u></u>	<u><u>\$ 526,538</u></u>	<u><u>\$ 10,928,595</u></u>

Total governmental fund balances	\$ 6,913,670
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is	\$ 59,704,507
Accumulated depreciation is	<u>(11,085,741)</u>
	48,618,766
Deferred charges, net of amortization	638,423
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
State school bond loan fund payable	(7,233,014)
State school loan revolving fund payable	(272,416)
Long-term general obligations	(40,605,000)
Long-term limited obligations	(162,788)
Compensated absences	(647,102)
Accrued interest is not included as a liability in government funds	(312,282)
Deferred revenue expected to be collected after September 1, 2006:	
Property taxes at June 30, 2006	<u>50,678</u>
Total net assets of governmental activities	<u><u>\$ 6,988,935</u></u>

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	2002 Capital projects	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Property taxes	\$ 2,013,727	\$ -	\$ 3,292,143	\$ 5,305,870
Other local sources	95,446	54,638	788,537	938,621
Total local sources	2,109,173	54,638	4,080,680	6,244,491
Intermediate sources	1,225,157	-	30,423	1,255,580
State sources	18,972,239	-	51,857	19,024,096
Federal sources	585,441	-	298,107	883,548
Total revenues	22,892,010	54,638	4,461,067	27,407,715
EXPENDITURES:				
Current:				
Instruction	12,764,982	-	-	12,764,982
Support services	8,653,006	-	-	8,653,006
Community services	214,726	-	-	214,726
Food service	-	-	953,402	953,402
Athletics	-	-	628,994	628,994
Public library	-	-	45,847	45,847
Capital outlay	-	968,724	-	968,724
Debt service:				
Principal retirement	-	-	1,855,956	1,855,956
Interest and fiscal charges	-	-	1,913,969	1,913,969
Total expenditures	21,632,714	968,724	5,398,168	27,999,606
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,259,296	(914,086)	(937,101)	(591,891)
OTHER FINANCING SOURCES (USES):				
Proceeds from school bond loan fund	-	-	264,155	264,155
Proceeds from sale of school property	336,930	-	-	336,930
Operating transfers in	-	-	450,000	450,000
Operating transfers out	(450,000)	-	-	(450,000)
Total other financing sources (uses)	(113,070)	-	714,155	601,085
NET CHANGE IN FUND BALANCES	1,146,226	(914,086)	(222,946)	9,194
FUND BALANCES, beginning of year	3,127,983	2,726,436	713,127	6,567,546
FUND BALANCES, end of year	<u>\$ 4,274,209</u>	<u>\$ 1,812,350</u>	<u>\$ 490,181</u>	<u>\$ 6,576,740</u>

See notes to financial statements.

THORNAPPLE KELLOGG SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances total governmental funds	\$ 9,194
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.

These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,503,065)
Capital outlay	1,030,924
Proceeds from sale of school property	(336,930)
Gain on the sale of school equipment	27,689

Accrued interest on bonds is recorded in the statement of activities

when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	345,263
Accrued interest payable, end of the year	(312,282)

Proceeds and repayments of principal on long-term debt are other financing

sources and expenditures in the governmental funds, but not in the statement of activities

(where they are additions and reductions of liabilities)

Repayment on capital lease	13,672
Principal repayment on general obligation bonds	1,765,000
Principal repayment on limited obligation bonds	90,956
Proceed from school loan revolving fund	(264,155)
Current year's amortization of bond issuance costs	(39,901)
Long-term interest on school bond loan fund (accrued)	(283,700)
Long-term interest on school loan revolving fund (accrued)	(8,261)

Revenue is recorded on the accrual method in the statement of activities; in the

governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(32,384)
Deferred revenue, end of the year	50,678

Compensated absences are reported on the accrual method in the statement of activities,

and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and severance benefits, beginning of the year	855,702
Accrued compensated absences and severance benefits, end of the year	(647,102)

Change in net assets of governmental activities	\$ 761,298
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THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	Agency fund	Trust funds
ASSETS		
Cash	\$ 239,716	\$ 34,186
Loans receivable	<u>-</u>	<u>6,704</u>
TOTAL ASSETS	<u><u>\$ 239,716</u></u>	<u><u>\$ 40,890</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups	\$ 239,716	\$ -
Due to employees	<u>-</u>	<u>2,059</u>
	239,716	2,059
Net assets:		
Held in trust for:		
Individuals and organizations	<u>-</u>	<u>38,831</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 239,716</u></u>	<u><u>\$ 40,890</u></u>

THORNAPPLE KELLOGG SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2006

	Trust funds
Additions	
Interest earnings	\$ 204
Deductions	
Office supplies	29
Change in net assets	175
Net assets, beginning of year	38,656
Net assets, end of year	\$ 38,831

THORNAPPLE KELLOGG SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Thornapple Kellogg Schools (“the District”) was organized under the School Code of the State of Michigan and services a population of approximately 2,900 students. The District is governed by the Thornapple Kellogg Schools Board of Education (the “Board”), consisting of seven members elected to four-year terms. The Board has decision-making authority, the power to designate management, responsibility for the primary accountability for fiscal matters.

The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services.

The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and No. 39.

The financial statements of Thornapple Kellogg Schools have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities.

The district-wide statement of net assets is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted State Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

The district-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This district-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental Funds are used to account for the District's general activity. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. It is considered a major fund.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. District-wide and Fund Financial Statements (Concluded)

The *2002 Capital Projects Fund* accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects. It is considered a major fund.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2002 Capital Projects Fund. The project for which the 2002 capital project bonds were issued was considered complete on September 1, 2005.

Non-major Governmental Funds:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service, athletic and public library activities in the special revenue funds. None of the special revenue funds are considered major funds.

The *Debt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. None of the debt service funds are considered major funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent for individuals or school-related organizations. Fiduciary funds are not included in the District's financial statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity. The two agency funds are comprised of the student activity fund and the flexible spending fund.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. The activity of the student loan program are reported here.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

E. Other Accounting Policies

1. Investments

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

1. *Investments (Concluded)*

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. *Property Taxes*

Property taxes for the District are levied December 1 by the townships of Leighton, Wayland, Carlton, Irving, Orangeville, Rutland, Thornapple, Yankee Springs, Campbell, Bowne, and Caledonia. The taxes are then collected by each governmental unit and remitted to the District. The counties of Allegan, Barry, Ionia, and Kent, through their delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Taxes uncollected are written off after three years from the date of the levy, unless material in amount.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Thornapple Kellogg Schools' voters approved an operating millage extension of the 18 mill non-homestead property tax which was levied in the District for 2006.

The District levied 7.0 mills in 2006 for debt service applied on all taxable property in the District.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

2. *Property Taxes (Concluded)*

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", or any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

3. *Inventories*

Inventories are valued at cost (first-in, first-out). Inventories of the food service fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

4. *Interfund Activity*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

5. *Capital Assets*

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets life are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and additions	40 - 50 years
Vehicles	5 - 10 years
Furniture and other equipment	3 - 10 years

6. *Compensated Absences*

Severance pay, accumulated sick leave, and early retirement incentive at June 30, 2006, has been computed and recorded in the basic financial statements of the District. Eligible district employees who select early retirement are entitled to a termination leave payment based on their age and years of service. The liability for compensated absences includes salary related payments. In the fund financial statements only the matured liability is reported. The total liability is recorded in the district-wide financial statements.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

E. Other Accounting Policies (Concluded)

7. *Long-term Obligations*

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Use of Estimates*

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act) requires that the general fund of a school district is under budgetary control and that both budgeted and actual financial results do not incur a deficit. Thornapple Kellogg Schools has also adopted budgets for its special revenue funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. Violations, if any, are noted in the required supplementary information section. All appropriations lapse at the end of the fiscal year.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting (Concluded)

Thornapple Kellogg Schools utilize the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance and Operations to establish proposed operating budgets for the fiscal year commencing in the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original general and special revenue funds budgets were amended during the year in compliance with State of Michigan 1968 PA 2 (the Uniform Budgetary and Accounting Act).
- Budgets for the general and special revenue funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - MICMS	\$ 493	0.0027	AAAm	0.0%
MILAF External Investment pool -MIMAX	508,703	0.0027	AAAm	16.2%
U.S. Agency Discount Notes	1,299,064	0.0135	A-1+	41.5%
Guaranteed Investment Contract (GIC)	1,322,512	0.1323	A1+	42.3%
Total fair value	<u>\$ 3,130,772</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0620</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$7,483,570 of the District's bank balance of \$7,683,570 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the note payable disclosed in Note 5.

The Investment Agreement, dated as of August 19, 2005, by and among J.P. Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Michigan Municipal Bond Authority. Such Loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 102% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 4.09% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$273,902	\$ 4,322,244
Investments	<u>3,130,772</u>
	<u><u>\$ 7,453,016</u></u>

The above amounts are reported in the financial statements as follows:

Cash - Agency Fund	\$ 273,902
Cash - District wide	4,044,252
Investments - District wide	1,322,512
Restricted cash and investments - Capital Projects	<u>1,812,350</u>
	<u><u>\$ 7,453,016</u></u>

THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 760,000	\$ -	\$ 15,000	\$ 745,000
Construction in progress	9,316,453	651,751	9,968,204	-
Total not depreciated	10,076,453	651,751	9,983,204	745,000
Capital assets, being depreciated:				
Land improvements	2,091,079	-	188,208	1,902,871
Buildings and additions	43,671,103	9,977,104	-	53,648,207
Furniture and equipment	2,694,627	64,974	781,489	1,978,112
Vehicles	1,544,403	138,487	252,573	1,430,317
Total being depreciated	50,001,212	10,180,565	1,222,270	58,959,507
Accumulated depreciation:				
Land improvements	565,893	89,515	188,208	467,200
Buildings and additions	7,694,082	988,150	-	8,682,232
Furniture and equipment	1,185,813	327,216	693,133	819,896
Vehicles	1,231,729	98,184	213,500	1,116,413
Total accumulated depreciation	10,677,517	1,503,065	1,094,841	11,085,741
Net capital assets	\$ 49,400,148	\$ 9,329,251	\$ 10,110,633	\$ 48,618,766

Depreciation for the fiscal year ended June 30, 2006 was allocated to the following programs:

Instruction	\$ 1,111,844
Support services	229,928
Community services	13,318
Food services	29,632
Athletics	118,343
	<u>\$ 1,503,065</u>

THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2006, the District has a note payable to the Michigan Municipal Bond Authority outstanding of \$1,500,000. The note has an interest rate of 2.87% and matures August 18, 2006. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2005	Additions	Payments	Balance June 30, 2006
<u>\$ 2,163,000</u>	<u>\$ 1,500,000</u>	<u>\$ 2,163,000</u>	<u>\$ 1,500,000</u>

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debts and other obligations currently outstanding are as follows:

2002 general obligation bonds due in annual installments of \$600,000 to \$1,600,000 through May 2028 with interest from 2.0% to 5.5%	\$ 21,715,000
2004 refunding term bonds due in annual installments of \$1,120,000 to \$1,235,000 through May 2022 with interest from 2.0% to 5.0%	<u>18,890,000</u>
Total general obligation debt	40,605,000
Limited obligation (Durant) bonds due in annual installments of \$20,136 to \$26,622 through May 2013 with an interest rate of 4.76%. Certain future state aid payments have been pledged as security.	<u>162,788</u>
Total bonded debt	40,767,788
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest	7,233,014
Borrowings from the State of Michigan under the School Loan Revolving Fund, including interest	272,416
Obligation under contract for compensated absences	246,595
Obligation under contract for early retirement	166,007
Obligation under contract for severance benefits	<u>234,500</u>
Total general long-term debt	<u>\$ 48,920,320</u>

THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding as of June 30, 2006, including interest of \$22,051,443 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 1,805,136	\$ 1,840,753	\$ 3,645,889
2008	1,856,099	1,793,070	3,649,169
2009	1,857,104	1,739,202	3,596,306
2010	1,838,156	1,680,699	3,518,855
2011	1,844,259	1,615,473	3,459,732
2012-2016	9,897,034	6,853,546	16,750,580
2017-2021	10,450,000	4,356,450	14,806,450
2022-2026	8,045,000	1,933,500	9,978,500
2027-2028	3,175,000	238,750	3,413,750
Total	40,767,788	22,051,443	62,819,231
Due to school bond loan fund	7,233,014		7,233,014
Due to school loan revolving fund	272,416		272,416
Accumulated compensated absences	246,595		246,595
Accumulated early retirement payable	166,007		166,007
Accumulated severance benefits	234,500		234,500
	<u>\$ 48,920,320</u>	<u>\$ 22,051,443</u>	<u>\$ 70,971,763</u>

An amount of \$456,003 is available in the debt service funds to service the general obligation debt.

THORNAPPLE KELLOGG SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2006:

	Compensated absences/early retirement and severance benefits	General obligation bonds	Limited obligation bonds	School bond loan fund	School loan revolving fund	Capital lease	Total
Balance July 1, 2005	\$ 855,702	\$ 42,370,000	\$ 253,744	\$ 6,949,314	\$ -	\$ 13,672	\$ 50,442,432
Additions	42,933	-	-	283,700	272,416	-	599,049
Deletions	(251,533)	(1,765,000)	(90,956)			(13,672)	(2,121,161)
Balance June 30, 2006	647,102	40,605,000	162,788	7,233,014	272,416	-	48,920,320
Less current portion	(206,513)	(1,785,000)	(20,136)	-	-	-	(2,011,649)
Total due after one year	\$ 440,589	\$ 38,820,000	\$ 142,652	\$ 7,233,014	\$ 272,416	\$ -	\$ 46,908,671

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

THORNAPPLE KELLOGG SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006, was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005, and 2004 were \$1,979,595, \$1,852,132 and \$1,692,776, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 26 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$250,000 and \$1 million respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

**THORNAPPLE KELLOGG SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RISK MANAGEMENT (Concluded)

The District is a member of the West Michigan Workers' Compensation Fund, a self-insurance program with 19 districts pooling together to insure workers' compensation and employers' liability exposures. The fund pays the first \$400,000 of any workers' compensation or employers' liability loss out of an \$2,325,936 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts.

Health and life insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - BOND COMPLIANCE

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2002 capital projects bond activity since inception:

	<u>2002 Bond</u>
Revenue and other financing sources	<u>\$ 25,070,278</u>
Expenditures and transfers	<u>\$ 23,257,928</u>

The above revenue amount includes net bond proceeds of \$24,341,529.

NOTE 10 - OPERATING TRANSFERS

Operating transfers between funds during the year ended June 30, 2006 were as follows:

<u>Fund</u>	<u>Operating transfers in</u>	<u>Operating transfers out</u>
General	\$ -	\$ 450,000
Athletic	450,000	-
	<u>\$ 450,000</u>	<u>\$ 450,000</u>

The general fund transferred \$450,000 to the athletic fund to subsidize operations.

REQUIRED SUPPLEMENTARY INFORMATION

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES:				
Local sources:				
Property taxes	\$ 2,152,077	\$ 2,063,696	\$ 2,013,727	\$ (49,969)
Other local sources	177,115	379,650	432,376	52,726
Intermediate sources	1,117,652	1,179,017	1,225,157	46,140
State sources	18,892,716	18,873,322	18,972,239	98,917
Federal sources	614,769	587,772	585,441	(2,331)
Total revenues	<u>22,954,329</u>	<u>23,083,457</u>	<u>23,228,940</u>	<u>145,483</u>
EXPENDITURES:				
Current:				
Instruction	13,158,633	12,996,823	12,764,982	231,841
Support services:				
Pupil	929,307	1,498,322	1,390,522	107,800
Instructional staff services	1,229,469	1,071,865	1,033,624	38,241
General administration	420,453	377,803	344,014	33,789
School administration	1,209,212	1,166,835	1,166,682	153
Business	539,190	533,318	548,441	(15,123)
Operations and maintenance	2,462,371	2,370,262	2,323,804	46,458
Pupil transportation	1,091,571	1,765,666	1,843,457	(77,791)
Central services	6,500	4,300	2,462	1,838
Community services	313,042	233,193	214,726	18,467
Interdistrict services	1,524,865	-	-	-
Total expenditures	<u>22,884,613</u>	<u>22,018,387</u>	<u>21,632,714</u>	<u>385,673</u>
EXCESS OF REVENUES OVER EXPENDITURES	69,716	1,065,070	1,596,226	531,156
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(450,000)	(450,000)	(450,000)	-
Proceeds from sale of school property	275,000	335,000	336,930	1,930
Total other financing sources (uses)	<u>(175,000)</u>	<u>(115,000)</u>	<u>(113,070)</u>	<u>1,930</u>
NET CHANGE IN FUND BALANCE	(105,284)	950,070	1,483,156	533,086
FUND BALANCE, beginning of year	3,127,983	3,127,983	3,127,983	-
FUND BALANCE, end of year	<u>\$ 3,022,699</u>	<u>\$ 4,078,053</u>	<u>\$ 4,611,139</u>	<u>\$ 533,086</u>

ADDITIONAL INFORMATION

**THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	<u>Special revenue funds</u>			<u>Debt service funds</u>		
	<u>Food service</u>	<u>Athletics</u>	<u>Public Library</u>	<u>2002 Debt</u>	<u>2004 Debt</u>	<u>Total</u>
ASSETS						
Cash	\$ 5,537	\$ 23,963	\$ 6,584	\$ 226,889	\$ 229,106	\$ 492,079
Taxes receivables	-	-	-	1,725	6,085	7,810
Due from other governmental units	13,254	-	756	-	-	14,010
Other receivables	1,003	-	-	-	-	1,003
Inventories	11,636	-	-	-	-	11,636
TOTAL ASSETS	<u>\$ 31,430</u>	<u>\$ 23,963</u>	<u>\$ 7,340</u>	<u>\$ 228,614</u>	<u>\$ 235,191</u>	<u>\$ 526,538</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 12,148	\$ 2,734	\$ -	\$ -	\$ -	\$ 14,882
Due to other governmental units	-	928	-	-	-	928
Deferred revenue	12,745	-	-	1,721	6,081	20,547
Total liabilities	<u>24,893</u>	<u>3,662</u>	<u>-</u>	<u>1,721</u>	<u>6,081</u>	<u>36,357</u>
Fund balances:						
Reserved for debt service	-	-	-	226,893	229,110	456,003
Reserved for inventory	6,537	-	-	-	-	6,537
Designated for subsequent year's expenditures	-	10,838	3,679	-	-	14,517
Unreserved, undesignated	-	9,463	3,661	-	-	13,124
Total fund balances	<u>6,537</u>	<u>20,301</u>	<u>7,340</u>	<u>226,893</u>	<u>229,110</u>	<u>490,181</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 31,430</u>	<u>\$ 23,963</u>	<u>\$ 7,340</u>	<u>\$ 228,614</u>	<u>\$ 235,191</u>	<u>\$ 526,538</u>

THORNAPPLE KELLOGG SCHOOLS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006

	Special revenue funds			Debt service funds			
	Food service	Athletics	Public Library	1998 Durant	2002 Debt	2004 Debt	Total
REVENUES:							
Local sources	\$ 604,601	\$ 174,519	\$ 9,417	\$ 131,618	\$ 1,356,153	\$ 1,804,372	\$ 4,080,680
Intermediate sources	-	-	30,423	-	-	-	30,423
State sources	51,857	-	-	-	-	-	51,857
Federal sources	298,107	-	-	-	-	-	298,107
Total revenues	954,565	174,519	39,840	131,618	1,356,153	1,804,372	4,461,067
EXPENDITURES:							
Food service	953,402	-	-	-	-	-	953,402
Athletics	-	628,994	-	-	-	-	628,994
Public library	-	-	45,847	-	-	-	45,847
Debt service:							
Principal retirement	-	-	-	90,956	600,000	1,165,000	1,855,956
Interest and fiscal charges	-	-	-	40,662	1,061,352	811,955	1,913,969
Total expenditures	953,402	628,994	45,847	131,618	1,661,352	1,976,955	5,398,168
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,163	(454,475)	(6,007)	-	(305,199)	(172,583)	(937,101)
OTHER FINANCING SOURCES:							
Proceeds from school bond loan fund	-	-	-	-	264,155	-	264,155
Interfund transfers	-	450,000	-	-	-	-	450,000
Total other financing sources	-	450,000	-	-	264,155	-	714,155
NET CHANGE IN FUND BALANCES	1,163	(4,475)	(6,007)	-	(41,044)	(172,583)	(222,946)
FUND BALANCES, beginning of year	5,374	24,776	13,347	-	267,937	401,693	713,127
FUND BALANCES, end of year	\$ 6,537	\$ 20,301	\$ 7,340	\$ -	\$ 226,893	\$ 229,110	\$ 490,181

THORNAPPLE KELLOGG SCHOOLS
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

	2006			2005
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Food sales	\$ 610,814	\$ 604,291	\$ (6,523)	\$ 567,436
Interest on deposits	300	310	10	146
Miscellaneous	35	-	(35)	-
State sources	53,383	51,857	(1,526)	49,242
Federal sources	274,700	298,107	23,407	244,597
Total revenues	939,232	954,565	15,333	861,421
EXPENDITURES:				
Salaries and wages	272,050	270,837	1,213	236,531
Employee benefits	135,175	135,281	(106)	122,650
Purchased services	120,850	132,876	(12,026)	113,270
Food costs	367,000	384,689	(17,689)	316,782
Supplies, materials and other	41,785	29,719	12,066	75,035
Total expenditures	936,860	953,402	(16,542)	864,268
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,372	1,163	(1,209)	(2,847)
FUND BALANCE, beginning of year	5,374	5,374	-	8,221
FUND BALANCE, end of year	\$ 7,746	\$ 6,537	\$ (1,209)	\$ 5,374

THORNAPPLE KELLOGG SCHOOLS
ATHLETICS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

	2006			2005
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Sales and admissions	\$ 149,379	\$ 158,896	\$ 9,517	\$ 193,303
Donations	15,400	15,392	(8)	12,211
Interest on deposits	170	181	11	87
Miscellaneous	4,900	50	(4,850)	100
Total revenues	169,849	174,519	4,670	205,701
EXPENDITURES:				
Salaries and wages	357,095	353,769	3,326	350,860
Employee benefits	111,267	112,021	(754)	102,803
Purchased services	62,565	60,783	1,782	78,032
Supplies, materials and other	102,290	102,421	(131)	103,312
Total expenditures	633,217	628,994	4,223	635,007
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(463,368)	(454,475)	8,893	(429,306)
OTHER FINANCING SOURCES:				
Operating transfer in from general fund	450,000	450,000	-	430,000
NET CHANGE IN FUND BALANCE	(13,368)	(4,475)	8,893	694
FUND BALANCE, beginning of year	24,776	24,776	-	24,082
FUND BALANCE, end of year	\$ 11,408	\$ 20,301	\$ 8,893	\$ 24,776

THORNAPPLE KELLOGG SCHOOLS
PUBLIC LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

	2006			2005
	Final budget	Actual	Variance positive (negative)	Actual
REVENUES:				
Local sources:				
Township appropriated income	\$ 2,256	\$ 2,256	\$ -	\$ 2,256
Interest on deposits	100	84	(16)	48
Miscellaneous	5,780	7,077	1,297	4,828
Intermediate sources	30,180	30,423	243	24,004
State sources	-	-	-	12,843
Total revenues	38,316	39,840	1,524	43,979
EXPENDITURES:				
Salaries and wages	21,100	20,572	528	22,369
Employee benefits	3,420	3,484	(64)	4,172
Purchased services	17,360	17,403	(43)	16,635
Supplies, materials and other	5,200	4,388	812	7,224
Total expenditures	47,080	45,847	1,233	50,400
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,764)	(6,007)	2,757	(6,421)
FUND BALANCE, beginning of year	13,347	13,347	-	19,768
FUND BALANCE, end of year	<u>\$ 4,583</u>	<u>\$ 7,340</u>	<u>\$ 2,757</u>	<u>\$ 13,347</u>

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

	Salaries	Employee benefits	Purchased services	Supplies, materials and other	Total actual expenditures	2005
EXPENDITURES						
Instruction:						
Basic programs:						
Elementary	\$ 3,044,906	\$ 1,579,431	\$ 255	\$ 91,696	\$ 4,716,288	\$ 4,667,020
Middle school	1,781,759	873,887	12,724	95,547	2,763,917	2,715,769
High school	2,324,542	1,097,670	16,099	102,340	3,540,651	3,766,675
Readiness	26,338	8,295	241	9,850	44,724	34,930
Added needs:						
Special education	725,952	382,780	1,501	222,520	1,332,753	1,121,990
Compensatory education	228,708	118,255	3,500	184	350,647	375,131
Vocational education	-	-	-	16,002	16,002	20,761
Total instruction	8,132,205	4,060,318	34,320	538,139	12,764,982	12,702,276
Support services						
Pupil:						
Attendance services	49,939	31,609	-	-	81,548	82,744
Guidance services	425,033	203,644	-	900	629,577	630,308
Occupational therapists services	3,822	911	14,669	9,472	28,874	3,173
Psychological services	-	-	4,145	98,115	102,260	8,072
Speech pathology and audiology	-	-	695	164,336	165,031	1,601
Social work services	-	16,886	375	162,568	179,829	17,275
Teacher consultant	3,544	815	25,126	71,163	100,648	6,375
Other pupil services	70,676	32,079	-	-	102,755	181,361
Instructional staff services:						
Improvement of instruction	148,569	44,397	49,113	6,587	248,666	223,830
Library	214,864	125,407	4,037	16,407	360,715	350,672
Computer assisted instruction	132,826	81,947	25,404	43,888	284,065	305,175
Special education administration	97,359	35,829	2,171	1,819	137,178	151,748
Academic student testing	-	-	3,000	-	3,000	-
General administration:						
Board of education			64,636	9,419	74,055	95,353
Executive administration	188,472	68,916	5,491	7,080	269,959	264,768
School administration	750,417	352,608	45,876	17,781	1,166,682	1,225,680
Business:						
Fiscal services	208,968	145,893	31,441	3,769	390,071	375,383
Internal services	12,452	4,965	-	1,700	19,117	19,315
Other business services	-	-	52,012	87,241	139,253	156,073

THORNAPPLE KELLOGG SCHOOLS
GENERAL FUND
STATEMENT OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

	<u>Salaries</u>	<u>Employee benefits</u>	<u>Purchased services</u>	<u>Supplies, materials and other</u>	<u>Total actual expenditures</u>	<u>2005</u>
EXPENDITURES (Concluded):						
Operation and maintenance:						
Operation and maintenance	\$ 804,005	\$ 494,594	\$ 273,603	\$ 740,701	\$ 2,312,903	\$ 2,321,515
Security services	-	-	10,901	-	10,901	11,524
Pupil transportation	490,563	350,905	30,137	971,852	1,843,457	1,039,855
Central services:						
Personnel services	-	-	2,462	-	2,462	948
Total supporting services	<u>3,601,509</u>	<u>1,991,405</u>	<u>645,294</u>	<u>2,414,798</u>	<u>8,653,006</u>	<u>7,472,748</u>
Community services:						
Community services direction	26,987	11,342	351	2,167	40,847	123,283
Community recreation	25,145	6,201	2,536	4,593	38,475	93,806
Custody and care of children	78,093	18,601	164	3,603	100,461	98,230
Drivers education	23,432	2,362	9,149	-	34,943	31,994
Total community services	<u>153,657</u>	<u>38,506</u>	<u>12,200</u>	<u>10,363</u>	<u>214,726</u>	<u>347,313</u>
Payments to other public schools in Michigan:						
Interdistrict services	-	-	-	-	-	1,367,352
Total expenditures	<u>11,887,371</u>	<u>6,090,229</u>	<u>691,814</u>	<u>2,963,300</u>	<u>21,632,714</u>	<u>21,889,689</u>
OTHER FINANCING USES:						
Operating transfers out to athletics fund	-	-	-	450,000	450,000	430,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 11,887,371</u>	<u>\$ 6,090,229</u>	<u>\$ 691,814</u>	<u>\$ 3,413,300</u>	<u>\$ 22,082,714</u>	<u>\$ 22,319,689</u>

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2006

\$24,115,000 Bonds issued November 6, 2002:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 600,000	\$ 522,613	\$ 522,613	2007	\$ 1,645,226
600,000	514,063	514,063	2008	1,628,126
600,000	504,613	504,613	2009	1,609,226
600,000	494,413	494,413	2010	1,588,826
600,000	483,613	483,613	2011	1,567,226
600,000	472,513	472,513	2012	1,545,026
690,000	461,113	461,113	2013	1,612,226
795,000	442,138	442,138	2014	1,679,276
900,000	420,275	420,275	2015	1,740,550
910,000	395,525	395,525	2016	1,701,050
920,000	370,500	370,500	2017	1,661,000
925,000	347,500	347,500	2018	1,620,000
925,000	324,375	324,375	2019	1,573,750
925,000	301,250	301,250	2020	1,527,500
1,025,000	278,125	278,125	2021	1,581,250
1,125,000	252,500	252,500	2022	1,630,000
1,375,000	224,375	224,375	2023	1,823,750
1,425,000	190,000	190,000	2024	1,805,000
1,475,000	154,375	154,375	2025	1,783,750
1,525,000	117,500	117,500	2026	1,760,000
1,575,000	79,375	79,375	2027	1,733,750
1,600,000	40,000	40,000	2028	1,680,000
<u>\$ 21,715,000</u>	<u>\$ 7,390,754</u>	<u>\$ 7,390,754</u>		<u>\$ 36,496,508</u>

The above bonds have interest rates from 2.0% to 5.5%. The bonds were issued for the purpose of erecting, furnishing and equipping an addition and or additions to, and partially remodeling, furnishing and re-furnishing, equipping school facilities; acquiring, installing and equipping educational technology for school facilities; erecting, furnishing and equipping an addition to and utility vehicle structure for the maintenance building; acquiring school buses; constructing, developing and improving outdoor physical education/athletic facilities, including tennis courts; acquiring, developing and improving sites; and to pay a portion of the costs of issuing the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2006

\$20,230,000 Bonds issued May 25, 2004:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 1,185,000	\$ 393,888	\$ 393,888	2007	\$ 1,972,776
1,235,000	379,076	379,076	2008	1,993,152
1,235,000	362,094	362,094	2009	1,959,188
1,215,000	343,569	343,569	2010	1,902,138
1,220,000	322,307	322,307	2011	1,864,614
1,215,000	299,432	299,432	2012	1,813,864
1,205,000	269,057	269,057	2013	1,743,114
1,190,000	245,710	245,710	2014	1,681,420
1,175,000	221,613	221,613	2015	1,618,226
1,165,000	197,525	197,525	2016	1,560,050
1,160,000	168,400	168,400	2017	1,496,800
1,155,000	139,400	139,400	2018	1,433,800
1,145,000	110,525	110,525	2019	1,366,050
1,140,000	81,900	81,900	2020	1,303,800
1,130,000	56,250	56,250	2021	1,242,500
1,120,000	28,000	28,000	2022	1,176,000
<u>\$ 18,890,000</u>	<u>\$ 3,618,746</u>	<u>\$ 3,618,746</u>		<u>\$ 26,127,492</u>

The above bonds have interest rates from 2.0% to 5.0%. The bond proceeds were used to refinance the 1996 bond issue and are subject to redemption prior to maturity at the option of the issuer in the manner and at the times as set forth in the bonds.

THORNAPPLE KELLOGG SCHOOLS
BONDED DEBT
JUNE 30, 2006

\$253,744 Durant Bond – issued on November 13, 1998

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 20,136	\$ 7,751	2007	\$ 27,887
21,099	6,792	2008	27,891
22,104	5,788	2009	27,892
23,156	4,735	2010	27,891
24,259	3,633	2011	27,892
25,412	2,477	2012	27,889
26,622	1,267	2013	27,889
<u>\$ 162,788</u>	<u>\$ 32,443</u>		<u>\$ 195,231</u>

This bond is not subject to redemption prior to maturity by the District and the District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The 4.76% interest rates payable on this bond may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the District (the “State Aid Payments”). The District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority’s depository.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN FUND
JUNE 30, 2006

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2002	\$ -	\$ -	\$ 4,073,932
2003	69,011	139,234	208,245
2004	1,544,886	142,529	1,687,415
2005	785,924	193,798	979,722
2006	-	283,700	283,700
	<hr/>	<hr/>	<hr/>
Totals June 30, 2006	<u>\$ 2,399,821</u>	<u>\$ 759,261</u>	<u>\$ 7,233,014</u>

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2006

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from and repayments to the State under this program have been summarized as follows:

Year ended June 30,	Loan proceeds	Interest expense	Loan balance (net change)
Loan balance at June 30, 2005	\$ -	\$ -	\$ -
2006	264,155	8,261	272,416
Totals June 30, 2006	\$ 264,155	\$ 8,261	\$ 272,416

THORNAPPLE KELLOGG SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2006

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Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

August 31, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2006, which collectively comprise Thornapple Kellogg Schools' basic financial statements and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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To the Board of Education
Thornapple Kellogg Schools

August 31, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thornapple Kellogg Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Thornapple Kellogg Schools in a separate letter dated August 31, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costurison & Ellis, P.C.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

August 31, 2006

Compliance

We have audited the compliance of Thornapple Kellogg Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Thornapple Kellogg Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Thornapple Kellogg Schools' management. Our responsibility is to express an opinion on Thornapple Kellogg Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Thornapple Kellogg Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Thornapple Kellogg Schools' compliance with those requirements.

In our opinion, Thornapple Kellogg Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Thornapple Kellogg Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Thornapple Kellogg Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Thornapple Kellogg Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Thornapple Kellogg Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costurison & Ellis, P.C.

Certified Public Accountants

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Agriculture:</u>								
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast	10.553	051970	\$ 22,917	\$ 1,181	\$ 20,406	\$ 3,692	\$ 2,511	\$ -
		061970	28,237	-	-	26,913	28,237	1,324
			51,154	1,181	20,406	30,605	30,748	1,324
National School Lunch	10.555	051950	59,575	2,027	51,742	9,860	7,833	-
		061950	54,326	-	-	49,826	54,326	4,500
		051960	126,384	4,777	108,377	22,784	18,007	-
		061960	131,339	-	-	129,499	131,339	1,840
			371,624	6,804	160,119	211,969	211,505	6,340
Total Child Nutrition Cluster			422,778	7,985	180,525	242,574	242,253	7,664
Commodities: Food Distribution								
Entitlement	10.550		51,879	-	-	51,879	51,879	-
Bonus	10.550		3,975	-	-	3,975	3,975	-
			55,854	-	-	55,854	55,854	-
Total U.S. Department of Agriculture			478,632	7,985	180,525	298,428	298,107	7,664

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education:</u>								
Passed through Kent Intermediate School District:								
Special Education Cluster:								
Individuals with Disabilities Education Act - Flow Through	84.027	050450/0405	\$ 364,287	\$ 145,834	\$ 364,287	\$ 145,834	\$ -	\$ -
		060450/0506	354,336	-	-	257,297	354,336	97,039
			718,623	145,834	364,287	403,131	354,336	97,039
Individuals with Disabilities Education Act - Transition	84.027A	060490TS	1,666	-	-	1,666	1,666	-
Individuals with Disabilities Education Act -Preschool	84.173	050460/0405	16,665	6,790	16,665	6,790	-	-
		060460/0506	18,206	-	-	11,939	18,206	6,267
			34,871	6,790	16,665	18,729	18,206	6,267
Total special education cluster			755,160	152,624	380,952	423,526	374,208	103,306
Safe and Drug Free Schools	84.186A	062860/0506	6,861	-	-	6,861	6,861	-
Total passed through Kent Intermediate School District			762,021	152,624	380,952	430,387	381,069	103,306

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Education (Concluded):</u>								
Passed through the Michigan Department of Education :								
Title I	84.010	061530/0506	\$ 110,685	\$ -	\$ -	\$ 110,685	\$ 110,685	\$ -
Handicapped Preschool and School Program	84.027	060440 SPSR	4,130	-	-	4,130	4,130	-
Title V	84.298	060250/0506	1,179	-	-	1,179	1,179	-
Title II Part D	84.318	064290/0506	2,065	-	-	2,065	2,065	-
Improving Teacher Quality	84.367	060520/0506	84,974	-	-	84,974	84,974	-
Hurricane Katrina Relief	84.938	064120/1	470	-	-	-	470	470
Total passed through Michigan Department of Education			203,503	-	-	203,033	203,503	470
Total U.S. Department of Education			965,524	152,624	380,952	633,420	584,572	103,776

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (deferred) revenue 7/1/2005	Prior years expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) revenue 6/30/2006
<u>U.S. Department of Health and Human Services:</u>								
Passed through Kent Intermediate School District:								
Medicaid Outreach	93.778	2004-05	\$ 7,795	\$ 7,795	\$ 7,795	\$ 7,795	\$ -	\$ -
		2005-06	869	-	-	-	869	869
Total U.S. Department of Health and Human Services			8,664	7,795	7,795	7,795	869	869
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,452,820	\$ 168,404	\$ 569,272	\$ 939,643	\$ 883,548	\$ 112,309

The accompanying notes are an integral part of this schedule.

THORNAPPLE KELLOGG SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Thornapple Kellogg Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The special education cluster (CFDA # 84.027, #84.027A and #84.173) was audited as the major program, representing 43% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 585,441
Special revenue fund	<u>298,107</u>
	<u><u>\$ 883,548</u></u>

6. Program clusters contained within the schedule are as follows:

Child nutrition cluster consists of CFDA #10.553 and #10.555.

Special education cluster consists of CFDA #84.027, #84.027A and #84.173.

**THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

➤ Material weakness(es) identified: _____ Yes X No

➤ Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X No

➤ Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.027A and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**THORNAPPLE KELLOGG SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006**

There were no audit findings in the prior two years.



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Timothy J. Orians
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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 31, 2006

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

In planning and performing our audit of the financial statements of Thornapple Kellogg Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 31, 2006, on the financial statements of Thornapple Kellogg Schools.

PRIOR YEAR COMMENTS - RESOLVED

Fixed Assets

The District has reviewed their fixed asset tracking package and determined the software package used is adequate.

Review of Financial Procedures

The District has reviewed the internal control structure and made appropriate adjustments.

Current Year Comments

Cash Management-Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during FY 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management. We suggest the district continue to request funds on a reimbursement basis in order to ensure compliance with the cash management requirements.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the School Board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the District in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the District fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There might be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. We believe the District's current budget procedures are adequate.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

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August 31, 2006

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Thornapple Kellogg Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costrison & Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
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August 31, 2006

To the Board of Education
Thornapple Kellogg Schools
Middleville, Michigan

We have audited the financial statements of Thornapple Kellogg Schools for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Professional standards require that we provide you with the following information related to our audit.

1 Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Thornapple Kellogg School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Thornapple Kellogg School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Thornapple Kellogg School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Thornapple Kellogg School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Thornapple Kellogg School's compliance with those requirements.

2 Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Thornapple Kellogg Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Thornapple Kellogg Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3 Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payout. In addition, certain fixed assets were originally recorded using external appraisers estimates. Certain allocations on the statement of activities are based on estimates. We evaluated the key factors and assumptions used to develop the balance of compensated absences, the value of fixed assets and certain allocations on the statement of activities in determining that they are reasonable in relation to the financial statements taken as a whole.

4 Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Thornapple Kellogg School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Thornapple Kellogg School, either individually or in the aggregate, indicate matters that could have a significant effect on the Thornapple Kellogg School's financial reporting process.

5 Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6 Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Thornapple Kellogg School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7 Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Thornapple Kellogg School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8 Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Education and management of Thornapple Kellogg Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costurison & Ellis, P.C.